

## Chapter 4: Funding the Plan

The TSP highlights a tremendous set of transportation challenges. These include repairing a large backlog of maintenance for streets, bridges and traffic control systems; making transit, bicycling, and walking dramatically more attractive; protecting and improving neighborhood livability; and maintaining and improving the movement of freight and goods. We cannot afford to ignore these needs. A healthy, efficient transportation system is absolutely essential to achieving our vision for the future of Seattle. However, funding these transportation needs into the future will be an even greater challenge than in the past.

### Comprehensive Plan Goals and Policies

The Funding chapter responds to the goals and policies adopted in the Investing in the Transportation System chapter of the City's 2004 Comprehensive Plan Transportation Element. The goals and policies provide guidance and strategic direction for the more specific strategies, projects, programs and services that make up SDOT's implementation plan. This approach will insure consistency with the Comprehensive Plan in developing funding strategies over the next 20 years.

- TG28** Recognize and promote the urban village strategy when making transportation investments.
- TG29** Work towards transportation funding levels adequate to maintain and improve the transportation system.
- T68** Make strategic transportation investment decisions that are consistent with other policies in this Plan, with the Transportation Strategic Plan, and with funding opportunities that promote the city's transportation investment priorities. These investment decisions will also be made with consideration to future operating and maintenance costs associated with improvements.
- T69** Support regional and local transit resource allocations, as well as efforts to increase overall transit funding that are consistent with the City's urban village strategy and the regions' urban center policies.
- T70** Pursue strategies to finance repair of road damage from heavy vehicles in a way that is equitable for Seattle's taxpayers.
- T71** Fund projects, programs and services with a combination of local and non-local funds, including:
- Contributions from other entities that benefit from an investment, such as property owners nearby an investment;
  - Grants and other investments from local, regional, state, and federal funding sources;
  - Contributions from the region for investments that serve regionally-designated urban centers and regional facilities.
- T72** Consider new funding sources that are flexible, equitable and sustainable, including:
- Growth- and development-related revenues, including impact fees, where appropriate and where consistent with economic development policies;

- User-based taxes and fees, including a commercial parking tax; and
- Other locally generated revenues.

- T73** Support regional, state and federal initiatives to increase transportation funding. Work to encourage new and existing funding sources that recognize Seattle’s needs and priorities.
- T74** Consistent with the other policies in this Plan and the Transportation Strategic Plan:
- Prepare a six-year CIP that includes projects that are fully or partially funded;
  - As part of the Transportation Strategic Plan, prepare an intermediate-range list of projects for which the City plans to actively pursue funds over the next approximately 8 to 10 years, and
  - Maintain a long-range working list of potential projects and known needs.
- T75** If the level of transportation funding anticipated in the six-year financial analysis, below (Figure 4), falls short, the Department of Finance and the Seattle Department of Transportation will:
- Identify and evaluate possible additional funding resources; and/or
  - Identify and evaluate alternative land use and transportation scenarios, including assumptions about levels and distribution of population and employment, densities, types and mixes of land use, and transportation facilities and services, and assess their affects on transportation funding needs.

The City may then revise the Comprehensive Plan as warranted to ensure that level-of-service standards will be met.

## **4.1 Funding Context**

### **4.1a The Funding Problem.**

The City of Seattle has a major transportation funding problem. Excluding special funds for “mega-projects”, the City’s current annual transportation revenues are \$69 million. Of this amount, local revenues comprise \$52 million, consisting of \$34 million from the General Fund, \$6 million from the Cumulative Reserve Fund, and \$12 million from gas taxes. The remaining \$17 million comes from grants, loans and other sources. The current resources are only adequate to fund operations and maintenance plus a small amount of major maintenance — a few miles of arterial paving each year, one bridge replacement every 3 - 5 years and a few traffic control system projects. The current level of funding is not adequate even to prevent progressive deterioration in the transportation infrastructure. In fact, at current levels of funding, the \$500 million backlog of deferred maintenance will double within the next ten to fifteen years.

Achieving appropriate levels of maintenance (preventing additional deterioration and gradually retiring the maintenance backlog) is estimated to require an additional \$40 to \$50 million per year. Improvements for meeting the transportation needs identified in the neighborhood plans would add several million dollars per year to that amount. Investments in much-needed mobility improvements would require still more funding. For example, SDOT also encourages funding for transit capital and operations projects. While most of this funding must come from transit agency sources; Seattle must partner with the region to identify ways to fund the \$56 million annual service gap that would enable Seattle’s transit network to accommodate projected growth. In summary, the Seattle transportation system would require over \$100 million *more* per year in order to reduce maintenance backlog, accommodate growth, and meet the mobility needs of neighborhoods and developing areas.

Several factors have eroded Seattle's transportation funding over the years. The City lost over \$10 million per year when the State Supreme Court declared the Residential Street Utility Fee unconstitutional in 1995. In 2003, the State Supreme Court upheld the provisions of Initiative 776 and eliminated the Vehicle License Fee that was providing about \$5 million per year for transportation. Gas tax revenues have declined about 4% each year (adjusted for inflation) due to two factors: (1) since gas taxes are on a per-gallon basis, the revenues can increase only with consumption, not price inflation, and (2) the State has not updated the gas tax distribution formula to account for the creation of new cities and towns. In short, SDOT continues to lose transportation revenues.

The Mayor and City Council have filled a major part of the funding gap by increasing the amount of revenues from the General Fund (GF) and Cumulative Reserve Fund (CRF) that are allocated for transportation. From 1995 to 2002, the amount of revenues from these sources for transportation was increased from \$13.4 million to \$45.3 million. In 2004, this amount is \$40.3 million. Unfortunately, revenues from these sources are not sustainable at current levels. A major source of GF revenues is the property tax. However, Initiative 747 has constrained property tax growth (except for new development) to 1% or less per year. A major source of CRF revenues is the Real Estate Excise Tax (REET). The recent surge in real estate transactions will likely subside as interest rates rise in coming years. Moreover, there are many other city programs besides transportation that are dependent on these sources. Competition for these revenues will intensify as the growth in revenues fails to keep up with program needs.

Efforts to secure help from the State Legislature in the form of local option revenue sources for transportation have not been successful.

Currently, the City of Seattle does not have the funds to provide and maintain a healthy, efficient transportation system. We need to find new funding sources and cannot afford to continue neglecting this problem, because if neglected, it will become progressively more expensive. The City's livability and vitality are at stake. This section will briefly examine the current revenues, then recommend options for raising additional funding.

#### **4.1b Current Funding Sources.**

The City's transportation funding comes from four main sources: tax and fee revenues, grants, partnerships and reimbursable services.

Tax and Fee Revenues. SDOT's transportation tax and fee revenues include the local allocation of the state fuel tax, general fund sources, and cumulative reserve fund sources.

Fuel tax revenues provide about \$12.2 million of SDOT's 2004 budget.

General Fund revenues (sales tax, property tax, B&O tax, utility taxes, street use permit fees, parking meter fees, and other smaller taxes and fees) contribute \$34.4 million to the 2004 Transportation budget.

Cumulative Reserve Fund revenues (the real estate excise tax and other sources) provide \$5.9 million of the 2004 transportation budget.

Grants. SDOT typically secures between \$10 and \$20 million per year in federal and state grants. To secure these grants, the City must allocate between \$5 to \$10 million for local match. From time to time, the City is also able to secure special grant funding for major capital projects.

Partnerships. SDOT works with both public and private partners to fund projects, including the State, King County/Metro, the Port of Seattle, the Regional Transportation

Investment District, and private businesses. The Department sometimes partners with individual citizens and businesses to fund small improvements like sidewalk repairs.

Reimbursable Services. SDOT provides services to public and private agencies on a reimbursable basis, such as street use permitting and repairing utility cuts.

### **Cost Avoidance Opportunities.**

Savings generated by efficiency improvements—getting more for our existing spending—are SDOT’s first target for reducing the need for additional revenues. In fact, SDOT has implemented a number of recent improvements that are having a substantial impact on efficiency and cost effectiveness. Examples include:

- Re-timing and synchronizing traffic signals in 17 corridors throughout the City.
- Procuring new equipment (paving machines and dump trucks) with greater capacity.
- Use of improved materials (concrete and asphalt) with greater durability.
- Implementation of a pavement management system to determine the most cost effective application of limited paving resources (to date implemented only for the arterial street system, not yet the local street system).
- Computerized mapping of land parcels, streets, utilities, structures, landscaping and traffic control systems to facilitate design and management of City resources.
- Partial implementation of an Intelligent Transportation System program to improve traffic management and safety.

As important as efficiency improvements are, they are not enough to offset Seattle’s transportation funding shortfall. Ironically, a shortage of funds can actually result in increases of cost *inefficiencies*. Following are some examples:

Inability to fund routine paving, such as “chip seal”, on roads in good condition allows the road surface to deteriorate to a condition requiring reconstruction, which is several times more expensive than the chip seal resurfacing.

Funding might be available for one project, such as road reconstruction, but not available for utility replacement on the same road section. When the utility replacement is later done, part of the road will have to be reconstructed again. Having funding available for both projects simultaneously would avoid the second road reconstruction.

## **Strategies for Funding the Transportation System**

This plan offers direction so that SDOT can make the most of new transportation investments. The Funding Chapter identifies strategies so that SDOT can leverage investments, both public and private, for use in new transportation projects to get the best return on taxpayer transportation dollars. The following strategies are proposed:

### **F1. Prioritize Transportation Programs and Projects to Maximize Benefits from Limited Revenues.**

Prioritization of transportation programs and projects occurs annually during the process of development and approval of the annual budget. In setting priorities, SDOT will seek to balance projects and programs from all categories to maximum the public benefit from limited transportation revenues.

Over the next several years, it is likely that SDOT will be faced with declining funding sources. That means painful decisions deciding what programs and projects to reduce or cut as well as determining how to spread limited resources over those that will receive funding. In this austere environment, careful prioritization becomes even more critical (and difficult) than in times when funding is more plentiful.

The four-step process used to evaluate and prioritize SDOT activities is described in more detail in Section 4 below.

## **F2. Maximize Available Funding Resources.**

Historically, SDOT has aggressively pursued state and federal grants. In these times of fiscal austerity, these funding sources become especially important as a means to leverage local funds. However, it is important to recognize that outside funds usually require local match. Just because grant funding may be potentially available for certain projects does not always mean that those projects are the best use of the local funds.

## **F3. Continue to Look for Means to Improve Efficiencies and Cost Effectiveness.**

Making improvements to efficiencies and cost effectiveness save money and help SDOT stretch transportation dollars further. SDOT always makes an effort to identify means to improve efficiencies and cost effectiveness and will continue these efforts in the future (e.g., extending the pavement management system to local streets, re-time and synchronize traffic signals, implementing the ITS, protective coating bridges).

## **F4. Develop New Funding Resources.**

Opportunities for new local funding sources for transportation are very limited. In keeping with City Council Resolution 30683, SDOT has been directed to work with other cities in Washington and with elected State representatives to develop legislation for new local option funding sources for transportation. Transportation user fees, whereby users of the transportation system pay in proportion to their amount of use, should be the primary component of any new long-term funding package for SDOT. In addition, SDOT will continue to look for transportation funding sources that provide an ongoing, flexible and growing source of funds in order to keep up with ever-increasing costs of operating and maintaining the transportation system.

In recent years, SDOT staff has worked with various groups to identify potential funding sources for transportation. These groups include the Blue Ribbon Transportation Commission, the Association of Washington Cities, the Citizens' Transportation Advisory Committee, and the King County Department of Transportation. Potential funding sources that have been identified are listed below:

- Fuel Tax. The fuel tax is well understood and has a fairly good nexus to transportation use. The collection and administration process is well established. Implementation under current statutory authority would require a joint agreement with King County and a 50% voter approval. Unfortunately, the current distribution formula for tax proceeds is weighted against cities and the fuel tax revenues have poor (negative) growth potential. With these considerations, if the Legislature is favorably disposed to an additional "cents-per-gallon" fuel tax with a major portion of proceeds allocated to cities, the City will support and encourage Legislative action.
- Sales Tax on Fuel. The sales tax on fuel would require new legislation and probably voter approval. It has good nexus and better growth potential than the (per gallon) fuel tax. This revenue source should be considered in concert with a revised allocation formula that more fairly distributes tax proceeds according to the amount and usage of transportation infrastructure within jurisdictional boundaries of cities, counties and the state.
- Mileage-Based User Fees. Technology is now emerging that would accommodate a mileage-base fee system whereby vehicle travel could be monitored electronically and fees charged based on mileage driven times a rate per mile. It is even technically possible to determine the mileage driven by geographic jurisdiction and/or by day/time period. The state of Oregon is now engaged in a test program for mileage-based fees as an eventual replacement for the per-gallon fuel tax. This type of fee has a good nexus to use of the transportation system. Implementation would require new state legislation and the program would probably need to be implemented on a regional or statewide basis. This is recommended as a long-term funding source to be pursued as



the technology and political climate mature.

- **Vehicle Weight Fee.** Currently, the cities in Washington State receive none of the weight fees from heavy-duty vehicles. There is no weight fee for light-duty vehicles. This fee would have a fair nexus to transportation and would require new legislation. The Vehicle Weight Fee could be combined with the Mileage-Based User Fees (scale the per-mile rate according to vehicle weight). This funding source should be pursued only if the city share of receipts is proportional to fees collected from users of local transportation facilities.
- **Street Utility Fee.** From 1992 - 1995, the City had implemented a Street Utility Fee that provided over \$10 million per year revenues. However, the State Supreme Court disallowed the Street Utility Fee for residential application in 1995. But with new legislation and careful restructuring of the fees to strengthen the nexus between the fee charged and the use of the transportation system, this could be a good ongoing funding source for the City. Also, unlike fuel taxes or vehicle weight fees, this revenue source could be readily implemented and administered within city boundaries. To be successful, implementation would require extensive outreach to both commercial and residential communities in Seattle as well as coordination of support from other cities in the state (to encourage legislative action). It is essential that the fee structure be understandable and perceived as fair to those who will pay the fees.

## **4.2: SDOT Program/Project Evaluation Process**

Following is a description of a four-step process that SDOT uses to prioritize the programs and projects in preparing recommendations to the Mayor and City Council for inclusion in the budget, the CIP, and the grant development process.

### **Step 1: Identification of Transportation Needs.**

This step is really an ongoing process during which projects and programs for future funding are identified. These needs are developed from a number of sources:

- **Transportation Strategic Plan.** The TSP describes transportation strategies that are supported by projects and programs. In the pursuit of each strategy, specific action items will emerge that will require programming and commitment of resources.
- **Ongoing operations and maintenance programs.** SDOT departments have established periodic activities that are essential to operating and maintaining the transportation infrastructure.
- **Backlog of projects.** SDOT has a \$500M backlog of projects for major maintenance and replacement of transportation infrastructure. This backlog is updated as projects are funded and built and as existing facilities age and require maintenance.
- **Projects in current CIP.** The Capital Improvement Program is a revolving six-year list of transportation projects. Some projects in the CIP are not fully funded or have additional phases that require new funding sources.
- **Projects from SDOT planning.** SDOT conducts transportation studies that identify projects and programs desired for a specific area or mode.
- **Neighborhood plans and citizen requests.** SDOT incorporates needs identified in neighborhood plans into this process, as well as input from neighborhood and stakeholder groups.
- **Coordination with partner agencies.** SDOT staff works in partnership with other agencies in the Puget Sound region to develop and fund transportation projects.

### **Step 2: Identification of non-discretionary programs and projects.**

This step identifies non-discretionary programs and projects that must be budgeted for completion. Criteria for these items are as follows:

- Mandated, with serious consequences for failing to met the mandate (e.g. debt service,

judgment and claims payments, Metro “Ride-Free Zone” payment, City Commute Trip Reductions payment, federal or state law mandates)

- Essential for the Department to function on a daily basis (e.g. accounting, payroll, human resources, facility rental, vehicles and equipment)
- Reimbursable services to other City departments or outside agencies (e.g. street use permitting, repairing utility cuts)
- Restricted funding services (e.g. support for Sound Transit, Monorail, Metro, Alaskan Way Viaduct)
- Services that generate revenue for General Fund (e.g. parking)
- Currently in construction (stopping these projects would be more costly than completing them)
- Urgent safety or emergency need (e.g. landslide, sinkhole)

### **Step 3: Prioritization of Discretionary Programs and Projects.**

The programs and projects remaining after Step 2 are then grouped into priority categories (high, medium, low). This prioritization process evaluates each program or project on its merits. Following are the criteria applied to this evaluation:

- **Safety.** To what extent does the program/project reduce or eliminate a risk to public safety?
- **Preserving and maintaining infrastructure.** To what extent does the program/project maintain and preserve the City’s transportation infrastructure?
- **Cost effectiveness or cost avoidance.** Will the program/project save City significant amounts of money in the future by using special funds now available or by avoiding much higher costs if infrastructure is allowed to deteriorate further?
- **Mobility improvement.** Will the program/project improve mobility or prevent deterioration of mobility?
- **Economic development.** Does the program/project support economic development?
- **Comprehensive Plan/Urban Village land use strategy.** Does the program/project address Comprehensive Plan goals or policies? Does it build, improve or repair transportation facilities to promote and accommodate movement within and between urban centers, urban villages, and/or manufacturing and industrial centers?
- **Improving the Environment.** Does the project promote healthy neighborhoods, protect and/or improve environmental quality, reduce or mitigate pollution and promote energy-efficient transportation?

### **Step 4: Ordering Projects and Programs for Implementation.**

Once programs and projects have been grouped into priority categories, they are evaluated to determine their readiness for implementation. For example, even though a project may be a high priority, other circumstances may determine that the project is not ready for implementation. Four criteria are used to make this determination:

- **Funding availability.** How much funding is available for the project from external sources (grants, partnerships or other contributions)?
- **Interagency coordination.** Is project/program related to other projects in a way that affects project timing?
- **Geographic balance.** Does the project improve the balance of transportation funding to be spent among geographic sectors of the City?
- **Constituent balance.** Does the project improve the balance of transportation funding to be spent among constituent sectors of the City? Examples include: (1) Freight mobility, (2) Transit and ride-sharing, (3) Bicycle and pedestrian, and (4) Business.

The evaluation process considers the results of steps 3 and 4 together in order identify projects for which funding will be sought.